ANNUAL BUDGET OF-

GAMAGARA
Local Municipality (NC 453)

MEDIUM TERM REVENUE AND EXPENDITURE FRAMEWORK
2011/12 – 2013/14

ANNUAL BUDGET OF

GAMAGARA LOCAL MUNICIPALITY

2011/12 TO 2013/14
MEDIUM TERM REVENUE AND EXPENDITURE FORECASTS

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- In the foyers of all municipal buildings
- All public libraries within the municipality
- At www.treasury.gov.za

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Abbreviations and Acronyms

AMR	Automated Meter Reading
ASGISA	Accelerated and Shared Growth Initiative
BPC	Budget Planning Committee
CBD	Central Business District
CFO	Chief Financial Officer
CM	Municipality Manager
CPI	Consumer Price Index
CRRF	Capital Replacement Reserve Fund
DBSA	Development Bank of South Africa
DoRA	Division of Revenue Act
DWA	Department of Water Affairs
EE	Employment Equity
EEDSM	Energy Efficiency Demand Side Management
EM	Executive Mayor
FBS	Free basic services
GAMAP	Generally Accepted Municipal Accounting Practice
GDP	Gross domestic product
GDS	Gauteng Growth and Development Strategy
GFS	Government Financial Statistics
GRAP	General Recognised Accounting Practice
HR	Human Resources
HSRC	Human Science Research Council
IDP	Integrated Development Strategy
IT	Information Technology
kℓ	kilolitre
km	kilometre
KPA	Key Performance Area
KPI	Key Performance Indicator
kWh	kilowatt
ℓ	litre
LED	Local Economic Development
MEC	Member of the Executive Committee
MFMA	Municipal Financial Management Act Programme
MIG	Municipal Infrastructure Grant
MMC	Member of Mayoral Committee
MPRA	Municipal Properties Rates Act
MSA	Municipal Systems Act
MTEF	Medium-term Expenditure Framework
MTREF	Medium-term Revenue and Expenditure Framework
NERSA	National Electricity Regulator South Africa
NGO	Non-Governmental organisations
NKPIs	National Key Performance Indicators
OHS	Occupational Health and Safety
OP	Operational Plan
PBO	Public Benefit Organisations
PHC	Provincial Health Care
PMS	Performance Management System
PPE	Property Plant and Equipment
PPP	Public Private Partnership
PTIS	Public Transport Infrastructure System
RG	Restructuring Grant
RSC	Regional Services Council
SALGA	South African Local Government Association
SAPS	South African Police Service
SDBIP	Service Delivery Budget Implementation Plan
SMME	Small Micro and Medium Enterprises

Part 1 – Annual Budget

1.1 Mayor's Report

Honourable Councillors

Acting Manager and Officials of Gamagara Local Municipality

Ward Committee Members

Members of the Community

Members of media

Various leaders of society

Ladies and Gentlemen

It is indeed an honour and privilege for me to present to you the 2011/12 Budget today on behalf of our beloved and dedicated agent of service delivery, Gamagara Local Municipality.

Today marks the end of our term of office since we were elected in 2006, our responsibility and mandate has always been to provide quality and efficient service delivery to our communities. As council we are happy to declare that this term has been one of the exciting times in local government as a result of positive interactions and support that was provided by our communities.

Honourable Deputy Mayor, allow me once again to commend all our committed officials and politicians who were working tirelessly to ensure that our municipality becomes one of the improved municipality in the country during our term of office.

We committed ourselves then in 2006 that we are going to make local government works better for all our people and indeed it is evident that together we've managed to make this plan work successfully through the provision of better and quality services that we had provided for the communities of Gamagara.
As the Gamagara council we remain humbled by the trust bestowed on us by the entire population of Gamagara for their hope of freeing them from poverty and underdevelopment especially in the previously disadvantaged areas.

Therefore, it is within this context that we will continue to foster the unity of all our people in line with the vision of the Freedom Charter in fighting poverty, creating decent living conditions and expanding the fruits of democracy and prosperity to all.

We will also continue to unite our people in line with the constitution to redress the imbalances of the past and give every child and every young person an opportunity to develop optimally and to flourish.

However, credit must go to our communities for allowing us to engage and consult with them under such a difficult circumstances where there was too many contestation as it relates to the coming local government elections , it really showed us that our people are committed to developments especially those that might impact positively in their lives. We also want to acknowledge the role played by young people in this process including other stakeholders.
There were tremendous developments that were undertaken by other sectors through Public Private Partnerships with in our municipality and that on its own have improved our Local Economic Development as the municipality and simultaneously impacted positively to our people as well in a form of jobs including other economic spin offs.

Honourable members - the capital expenditure budget of R62.8m. is based on the mandate we were given by our constituencies during the Integrated Development Plan and Budget process.

In terms of the tariffs, there is a proposal for the increase of tariffs by 8 % from the 1 July 2011 for water. This is based on the input cost assumptions of 10 % increase in the cost of bulk water (Sedibeng Water), the cost of other inputs increasing by 10% and a surplus generated on the water services of a minimum 15%. In addition 6 kilo litres of water per 30-day period will again be granted free of charge to all residents and a further 6 kilo litre will be will be granted to indigents households.

Honourable members, we must be mindful of the fact that the above mention provisions is in line with the constitution of the republic and remain our constitutional mandate to deliver to our people. With regard to the electricity NERSA has announced the revised bulk electricity pricing structure and an increase of 26.71% of Eskom bulk electricity tariff to municipality will be effective from 1 July 2011.

Therefore , there must be an increase of 20.38% for consumer tariff to offset the additional bulk purchase cost from 1 July 2011, it should be noted that given the scale of the tariff increase , it is expected to depress growth in the electricity consumption which will impact negatively on the municipal revenue from electricity.

Bagaetsho , below here is the proposed summarised increase of tariffs that will be effected from the 1 July 2011:

- Waste removal will increase by 8%
- Sanitation tariffs will increase by 8%
- Property rates will increase by 8%

Deputy Mayor, allow me to borrow from the word of the Minister in the Presidency for the Planning Commission, Mr T Manuel , when he said " it is necessary to remind ourselves that beyond the temptations of the great and grand new projects lies the responsibility to ensure that proper and regular maintenance of infrastructure is undertaken", we are raising this because our areas are dramatically developing in high speed and obviously there will be need to consider such provisions.

Ladies and Gentlemen, Comrades and Compatriot, allow me to wish all the individual councillors a success in their political endeavour for the coming local election, for those who have been with us since 2006 it was indeed an honour to have been serving with you in the progressive council of Gamagara Local Municipality. We all hope to meet once again with some of you after the 18th May 2011. Remember, by working together we can build better communities.

THANK YOU

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BAIE DANKIE

OBRIGADO

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CLLR. M.M DINIZA
MAYOR OF GAMAGARA LOCAL MUNICIPALITY

1.2 Council Resolutions

On 11 May 2011 the Council of Gamagara Local Municipality met in the Council Chambers of Gamagara Local Municipality to consider the annual budget of the municipality for the financial year 2011/12. The Council adopts the following resolutions:

1. The Council of Gamagara Local Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) adopts:

   1.1. The final annual budget of the municipality for the financial year 2011/12 and the multi-year and single-year capital appropriations as set out in the core tables contained in the bound budget document :

2. The Council of Gamagara Local Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) adopts with effect from 1 July 2011:

   2.1. the tariffs for; property rates, electricity, the supply of water, sanitation services and solid waste services – as set out in Annexure A,

3. The Council of Gamagara Local Municipality, acting in terms of 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves and adopts with effect from 1 July 2011 the tariffs for other services, as set out in Annexures A.

4. To give proper effect to the municipality's annual budget, the Council of Gamagara Local Municipality approves:

   4.1. That cash backing is implemented through the utilisation of a portion of the revenue generated from property rates and service charges to ensure that all capital reserves and provisions, unspent long-term loans and unspent conditional grants are cash backed as required in terms of the municipality's funding and reserves policy as prescribed by section 8 of the Municipal Budget and Reporting Regulations.

1.3 Executive Summary

The application of sound financial management principles for the compilation of the Municipality's financial plan is essential and critical to ensure that the Municipality remains financially viable and that municipal services are provided sustainably, economically and equitably to all communities.

The Municipality's business and service delivery priorities were reviewed as part of this year's planning and budget process. Where appropriate, funds were transferred from low- to high-priority programmes so as to maintain sound financial stewardship. A critical review was also undertaken of expenditures on non-core and 'nice to have items. Key areas where savings were realized were on telephone and internet usage, printing, workshops, travel, accommodation, and catering.

The Municipality has embarked on implementing a range of revenue collection strategies to optimize the collection of debt owed by consumers. Furthermore, the Municipality has undertaken various customer care initiatives and distributed pamphlets on the importance of paying municipal services to ensure the municipality truly involves all citizens in the process of ensuring a people lead government.

National Treasury's MFMA Circular No. 51 and 54 were used to guide the compilation of the 2011/12 MTREF.

The main challenges experienced during the compilation of the 2011/12 MTREF can be summarised as follows:

- The on-going difficulties in the national and local economy;
- Ageing and poorly maintained water, roads and electricity infrastructure;
- The need to reprioritise projects and expenditure within the existing resource envelope given the cash flow realities and declining cash position of the municipality;
- The increased cost of bulk water and electricity (due to tariff increases from Sedibeng Water and Eskom), which is placing upward pressure on service tariffs to residents. Continuous high tariff increases are not sustainable - as there will be point where services will no-longer be affordable;
- Wage increases for municipal staff that continue to exceed consumer inflation, as well as the need to fill critical vacancies;
- Affordability of capital projects – original allocations had to be reduced and the operational expenditure associated with prior year's capital investments needed to be factored into the budget as part of the 2011/12 MTREF process; and
- High exposure on borrowings which restricts us from borrowing further for infrastructure development.
- The continuous growth of the town which places a huge burden on the municipality to either upgrade its bulk services or develop new bulk infrastructure.
- Lack of proper planning and prioritisation by user department; i.e. most of the activities in the budget are not supported with business plans and this adds unnecessary pressure on the finance department during the compilation of the budget. The MTREF makes provision for 3 year rolling plan, in other words, if we plan properly we should know that, for example, if for 2011/12 we will be upgrading the oxidation ponds in Dibeng for their optimal use I must budget for the sewer network in 2012/13 and if this will be funded from MIG I must register the project for approval.

The following budget principles and guidelines directly informed the compilation of the 2011/12 MTREF:

- The 2010/11 Adjustments Budget priorities and targets, as well as the base line allocations contained in that Adjustments Budget were adopted as the upper limits for the new baselines for the 2011/12 annual budget;
- Intermediate service level standards were used to inform the measurable objectives, targets and backlog eradication goals;
- Tariff and property rate increases should be affordable and should generally not exceed inflation as measured by the CPI, except where there are price increases in the inputs of services that are beyond the control of the municipality, for instance the cost of bulk water and electricity. In addition, tariffs need to remain or move towards being cost reflective, and should take into account the need to address infrastructure backlogs;
- There will be no budget allocated to national and provincial funded projects unless the necessary grants to the municipality are reflected in the national and provincial budget and have been gazetted as required by the annual Division of Revenue Act;

In view of the aforementioned, the following table is a consolidated overview of the proposed 2011/12 Medium-term Revenue and Expenditure Framework:

Table 1 Consolidated Overview of the 2011/12 MTREF

R thousand	Adjustments Budget 2010/11	Budget Year 2011/12	Budget Year +1 2012/13	Budget Year +2 2013/14
Total Operating Revenue	193,324	173,020	190,478	210,134
Total Operating Expenditure	173,691	150,075	158,087	183,262
(Surplus)/Deficit for the year	19,633	22,946	32,392	26,873
Total Capital Expenditure	59,125	62,861	206,196	172,077

Total operating revenue has dropped by 11 per cent or R 20, 304 million for the 2011/12 financial year when compared to the 2010/11 Adjustments Budget. For the two outer years, operational revenue will increase by 10.09 and 10.03 per cent respectively, equating to a total revenue growth of R16.447 million over the MTREF when compared to the 2010/11 financial year.

Total operating expenditure for the 2011/12 financial year has been appropriated at R150, 075 million and translates into a budgeted surplus of R22.9 million. When compared to the 2010/11 Adjustments Budget, operational expenditure has dropped by 13.60 and 8.99 per cent in the 2011/12 and 2012/13 respective budgets but growth of 5.51 per cent for the second outer year of the MTREF. The operating surplus for the two outer years steadily increases to R 32,3million and then stabilise at R26.8 million. These surpluses will be used to fund capital expenditure and to further ensure cash backing of reserves and funds.

The capital budget of R62.8million for 2011/12 is 6.32 per cent more when compared to the 2010/11 Adjustment Budget. The capital programme increases to R206million in the 2012/13 financial year and then evens out in 2013/14 to R172million. A substantial portion of the capital budget will be funded from internal generated funds. Internal generated funds will contribute 36, 16 and 15 per cent of capital expenditure in each of the MTREF years, when government grants and transfers are excluded. The balance will be funded from grants and contributions from external stakeholders. Note that the Municipality has reached its prudential borrowing limits and so there is very little scope to substantially increase these borrowing levels over the medium-term. The repayment of capital and interest (debt services costs) has substantially increased over the past five years as a result of the aggressive capital infrastructure programme implemented over the past five years. Consequently, the capital budget remains relatively flat over the medium-term.

1.4 Operating Revenue Framework

For Gamagara Local Municipality to continue improving the quality of services provided to its citizens it needs to generate the required revenue. In these tough economic times strong revenue management is fundamental to the financial sustainability of every municipality. The reality is that we are faced with development backlogs and poverty. The expenditure required to address these challenges will inevitably always exceed available funding; hence difficult choices have to be made in relation to tariff increases and balancing expenditures against realistically anticipated revenues.

The municipality's revenue strategy is built around the following key components:

- National Treasury's guidelines and macroeconomic policy;
- Growth in the Municipality and continued economic development;
- Efficient revenue management, which aims to ensure a 95 per cent annual collection rate for property rates and other key service charges;
- Electricity tariff increases as approved by the National Electricity Regulator of South Africa (NERSA);
- Achievement of full cost recovery of specific user charges especially in relation to trading services;
- Determining the tariff escalation rate by establishing/calculating the revenue requirement of each service;
- The municipality's Property Rates Policy approved in terms of the Municipal Property Rates Act, 2004 (Act 6 of 2004) (MPRA);
- Increase ability to extend new services and recover costs;
- The municipality's Indigent Policy and rendering of free basic services; and
- Tariff policies of the Municipality.

Refer to table 2 in the annual budget for a summary of the 2011/12MTREF (classified by main revenue source):

In line with the formats prescribed by the Municipal Budget and Reporting Regulations, capital transfers and contributions are excluded from the operating statement, as inclusion of these revenue sources would distort the calculation of the operating surplus/deficit.

Revenue generated from rates and services charges forms a significant percentage of the revenue basket for the Municipality. Rates and service charge revenues comprise more than two thirds of the total revenue mix. In the 2010/11 financial year, revenue from rates and services charges totalled R140 million or 72.6 per cent. This increases to R151million, R166million and R184million in the respective financial years of the MTREF. A notable trend is the increase in the total percentage revenue generated from rates and services charges which increases from 72.6 per cent in 2011/12 to 87.62 per cent in 2013/14, and this uniquely positions Gamagara municipality as one of the few municipalities that are self-sustainable and not dependent on grant. This growth can be mainly attributed to the increased share that the sale of electricity contributes to the total revenue mix, which in turn is due to rapid increases in the Eskom tariffs for bulk electricity. The above table excludes revenue foregone arising from discounts and rebates associated with the tariff policies of the Municipality.

Property rates total R17 million rand and increases to R19million by 2013/14 and 'other revenue' which consists of various items such as income received from permits and licenses, building plan fees, connection fees, transport fees and advertisement fees totals 17,8 million and increases to R19,7 million by 2013/14. Departments have been urged to review the tariffs of these items on an annual basis to ensure they are cost reflective and market related.

Operating grants and transfers totals R20, 9 million in the 2010/11 financial year and steadily increases to R24, 8million by 2013/14.

Tariff-setting is a pivotal and strategic part of the compilation of any budget. When rates, tariffs and other charges were revised, local economic conditions, input costs and the affordability of services were taken into account to ensure the financial sustainability of the Municipality.

National Treasury continues to encourage municipalities to keep increases in rates, tariffs and other charges as low as possible. Municipalities must justify in their budget documentation all

increases in excess of the 6 per cent upper boundary of the South African Reserve Bank's inflation target. Excessive increases are likely to be counterproductive, resulting in higher levels of non-payment.

The percentage increases of both Eskom and Sedibeng Water bulk tariffs are far beyond the mentioned inflation target. Given that these tariff increases are determined by external agencies, the impact they have on the municipality's electricity and water tariffs are largely outside the control of the Municipality. Discounting the impact of these price increases in lower consumer tariffs will erode the Municipality's future financial position and viability.

It must also be appreciated that the consumer price index, as measured by CPI, is not a good measure of the cost increases of goods and services relevant to municipalities. The basket of goods and services utilised for the calculation of the CPI consist of items such as food, petrol and medical services, whereas the cost drivers of a municipality are informed by items such as the cost of remuneration, bulk purchases of electricity and water, petrol, diesel, chemicals, cement etc. The current challenge facing the Municipality is managing the gap between cost drivers and tariffs levied, as any shortfall must be made up by either operational efficiency gains or service level reductions. Within this framework the Municipality has undertaken the tariff setting process relating to service charges as follows.

1.4.1 Property Rates

Property rates cover the cost of the provision of general services. Determining the effective property rate tariff is therefore an integral part of the municipality's budgeting process.

National Treasury's MFMA Circular No. 51 deals, inter alia with the implementation of the Municipal Property Rates Act, with the regulations issued by the Department of Co-operative Governance. These regulations came into effect on 1 July 2009 and prescribe the rate ratio for the non-residential categories, public service infrastructure and agricultural properties relative to residential properties to be 0, 25:1. The implementation of these regulations was done in the previous budget process and the Property Rates Policy of the Municipality has been amended accordingly.

The following stipulations in the Property Rates Policy are highlighted:

- The first R15 000 of the market value of a property used for residential purposes is excluded from the rate-able value (Section 17(h) of the MPRA).
- 100 per cent rebate will be granted to registered indigents in terms of the Indigent Policy;

The categories of rate-able properties for purposes of levying rates and the proposed rates for the 2011/12 financial year based on a 8 per cent increase from 1 July 2011 is contained below:

Table 2 Comparison of proposed rates to levied for the 2011/12 financial year

Category	Current Tariff (1 July 2010)	Proposed tariff (from 1 July 2011)
	c	C
Agricultural Farms	0.001593	0.001720
Business/Res Bus Unreg	0.009558	0.010323
State owned/Public schools	0.006372	0.006882
Mining	0.012744	0.013764
Residential	0.006372	0.006882

1.4.2 Sale of Water and Impact of Tariff Increases

South Africa faces similar challenges with regard to water supply as it did with electricity, since demand growth outstrips supply. Consequently, National Treasury is encouraging all municipalities to carefully review the level and structure of their water tariffs to ensure:

- Water tariffs are fully cost-reflective – including the cost of maintenance and renewal of purification plants, water networks and the cost associated with reticulation expansion;
- Water tariffs are structured to protect basic levels of service and ensure the provision of free water to the poorest of the poor (indigent); and
- Water tariffs are designed to encourage efficient and sustainable consumption.

In addition National Treasury has urged all municipalities to ensure that water tariff structures are cost reflective by 2014.

Better maintenance of infrastructure, new dam construction and cost-reflective tariffs will ensure that the supply challenges are managed in future to ensure sustainability.

A tariff increase of 8 per cent from 1 July 2011 for water is proposed. This is based on input cost assumptions of 10 per cent increase in the cost of bulk water (Sedibeng Water), the cost of other inputs increasing by 10 per cent and a surplus generated on the water service of a minimum 15 per cent. In addition 6 kℓ water per 30-day period will again be granted free of charge to all residents and a further 6 kl will be granted to indigents households.

A summary of the proposed tariffs for households (residential) and non-residential are as follows:

Table 3 Proposed Water Tariffs

CATEGORY	CURRENT TARIFFS 2010/11	PROPOSED TARIFFS 2011/12
	Rand per kℓ	Rand per kℓ
Potable		
(i) 001 – 0006 Kl	**Free**	**Free**
(ii) 006 – 00012 Kl	6.08	6.57
(iii) 013 – 00035 kl	7.27	8.72
(iv) 036 – 9999 kl	9.69	11.63
Raw		
(i) 001 – 00200 Kl	3.73	4.48
(ii) 201 – 00300 Kl	4.56	5.47
(iii) 301 – 00400 kl	7.26	8.71
(iv) 401 – 9999 kl	10.09	12.11

The tariff structure of the 2010/11 financial year has not been changed. The tariff structure is designed to charge higher levels of consumption a higher rate.

1.4.3 Sale of Electricity and Impact of Tariff Increases

NERSA has announced the revised bulk electricity pricing structure. A 26.71 per cent increase in the Eskom bulk electricity tariff to municipalities will be effective from 1 July 2011.

Considering the Eskom increases, the consumer tariff had to be increased by 20.38 per cent to offset the additional bulk purchase cost from 1 July 2011. Furthermore, it should be noted that given the magnitude of the tariff increase, it is expected to depress growth in electricity consumption, which will have a negative impact on the municipality's revenue from electricity.

Registered indigents will again be granted 50 kWh per 30-day period free of charge. The tariffs further below shows the impact of the proposed increases in electricity tariffs on the electricity charges for domestic customers:

It should further be noted that NERSA has advised that a stepped tariff structure needs to be implemented from 1 July 2011. The effect thereof will be that the higher the consumption, the higher the cost per kWh. The aim is to subsidise the lower consumption users (mostly the poor).

1.4.4 Sanitation and Impact of Tariff Increases

A tariff increase of 8 per cent for sanitation from 1 July 2011 is proposed. This is based on the input cost assumptions related to water. It should be noted that electricity costs contributes approximately 20 per cent of waste water treatment input costs, therefore the higher than CPI increase of 8 per cent for sanitation tariffs. The following factors also contribute to the proposed tariff increase:

- Sanitation charges are calculated according to the percentage water discharged as indicated in the tariffs below;
- Free sanitation (100 per cent of 6 kℓ water) will be applicable to registered indigents; and

The following table compares the current and proposed tariffs:

Table 4 Comparison between current sanitation charges and increases

CATEGORY	CURRENT TARIFF PER kℓ	PROPOSED TARIFF PER kℓ
	R	R
Sewer	3.26	3.52

1.4.5 Waste Removal and Impact of Tariff Increases

Currently solid waste removal is operating at a deficit. It is widely accepted that the rendering of this service should at least break even, which is currently not the case. The Municipality will have to implement a solid waste strategy to ensure that this service can be rendered in a sustainable manner over the medium to long-term. The main contributors to this deficit are repairs and maintenance on vehicles, increases in general expenditure such as petrol and diesel and the cost of remuneration. Considering the deficit, it is recommended that a comprehensive investigation into the cost structure of solid waste function be undertaken, and that this include investigating alternative service delivery models. The outcomes of this investigation will be incorporated into the next planning cycle.

An 8 per cent increase in the waste removal tariff is proposed from 1 July 2011. Higher increases will not be viable in 2011/12 owing to the significant increases implemented in previous financial years as well as the overall impact of higher than inflation increases of other services. Any increase higher than 8 per cent would be counter-productive and will result in affordability challenges for individual rates payers raising the risk associated with bad debt.

The following table compares current and proposed amounts payable from 1 July 2011:

Table 10 Comparison between current waste removal fees and increases

	Current Tariffs 2010/11 R per Month	**Proposed Tariffs 2011/12 R per month**
Households	R84.86	R91.65
Business	R123.38	R133.25

1.5 Operating Expenditure Framework

The Municipality's expenditure framework for the 2011/12 budget and MTREF is informed by the following:

- The asset renewal strategy and the repairs and maintenance plan;
- Balanced budget constraint (operating expenditure should not exceed operating revenue) unless there are existing uncommitted cash-backed reserves to fund any deficit;
- Funding of the budget over the medium-term as informed by Section 18 and 19 of the MFMA;
- The capital programme is aligned to the asset renewal strategy and backlog eradication plan;
- Operational gains and efficiencies will be directed to funding the capital budget and other core services; and
- Strict adherence to the principle of *no project plan no budget*. If there is no business plan no funding allocation can be made.

The budgeted allocation for employee related costs for the 2011/12 financial year totals R54.5 million, which equals 36, 38 per cent of the total operating expenditure. Based on the three year collective SALGBC agreement, salary increases have been factored into this budget at a percentage increase of 8 per cent for the 2011/12 financial year. An annual increase of 5.5 and 5.3 per cent respectively has been included in the two outer years of the MTREF. As part of the Municipality's cost reprioritization and cash management strategy vacancies have been significantly rationalized downwards. As part of the planning assumptions and interventions all vacancies will have to be removed from the budget and a report must be compiled by the Corporate Services Department relating to the prioritization of critical vacancies within the Municipality. In addition expenditure against overtime was significantly reduced, with provisions against this budget item only being provided for emergency services and other critical functions.

The cost associated with the remuneration of councillors is determined by the Minister of Co-operative Governance and Traditional Affairs in accordance with the Remuneration of Public Office Bearers Act, 1998 (Act 20 of 1998).The most recent proclamation in this regard has been taken into account in compiling the Municipality's budget.

The provision of debt impairment was determined based on an annual collection rate of 95 per cent and the Debt Write-off Policy of the Municipality. For the 2011/12 financial year this amount equates to R2 million. While this expenditure is considered to be a non-cash flow item, it informed the total cost associated with rendering the services of the municipality, as well as the municipality's realistically anticipated revenues.

Provision for depreciation and asset impairment is not yet accurate as we are busy valuing our assets but this will be included in the adjustments budget for approval. Note that the implementation of GRAP 17 accounting standard means bringing a range of assets previously not included in the assets register onto the register. This will result in a significant increase in depreciation relative to previous years.

Finance charges consist primarily of the repayment of interest on long-term borrowing (cost of capital). Finance charges make up 5 per cent or the operating expenditure of R150.075 million.

Bulk purchases are directly informed by the purchase of electricity from Eskom and water from Sedibeng Water. The annual price increases have been factored into the budget appropriations and directly inform the revenue provisions. The expenditures include distribution losses. Other materials comprise of amongst others the purchase of fuel, diesel, materials for maintenance, cleaning materials and chemicals. In line with the Municipality's repairs and maintenance plan this group of expenditure has been prioritised to ensure sustainability of the Municipality's infrastructure

Other expenditure comprises of various line items relating to the daily operations of the municipality. This group of expenditure has also been identified as an area in which cost savings and efficiencies can be achieved. Growth has been limited to 8 per cent for 2011/12 and curbed at 5.3 and 5.5 per cent for the two outer years, indicating that significant cost savings have been already realised.

1.5.1 Priority given to repairs and maintenance

Aligned to the priority being given to preserving and maintaining the Municipality's current infrastructure, the 2011/12 budget and MTREF provide for extensive growth in the area of asset maintenance, as this emphasises the need for an asset renewal strategy and repairs and maintenance plan of the Municipality. In terms of the Municipal Budget and Reporting Regulations, operational repairs and maintenance is not considered a direct expenditure driver but an outcome of certain other expenditures, such as remuneration, purchases of materials and contracted services.

During the compilation of the 2011/12 MTREF operational repairs and maintenance was identified as a strategic imperative owing to the aging of the Municipality's infrastructure and historic deferred maintenance.

1.5.2 Free Basic Services: Basic Social Services Package

The social package assists households that are poor or face other circumstances that limit their ability to pay for services. To receive these free services the households are required to register in terms of the Municipality's Indigent Policy. The target is to register 3000 or more indigent households during the 2011/12 financial year, a process reviewed annually. Detail

relating to free services, cost of free basic services, revenue lost owing to free basic services as well as basic service delivery measurement contained in table 10.

The cost of the social package of the registered indigent households is largely financed by national government through the local government equitable share received in terms of the annual Division of Revenue Act.

1.6 Capital expenditure

Please refer to Table A5 of the budget document for a breakdown of budgeted capital expenditure by vote:

For 2011/12 an amount of R62.8.million has been appropriated for the upgrading and development of infrastructure. In the outer years this amount totals R206million and R172 million for each of the financial years. 36, 51 per cent of the capital budget is funded from internally generated funding and the rest by Grants and contributions from external stakeholders.

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Part 2 SUPPORTING DOCUMENTATION

1. Budget Related Policies

The Municipal Finance Management Act, (MFMA) Act No 56 of 2003 and the Budget Reporting Regulations prescribe the preparing and amending of budget related policies of municipalities.

The policies used as a basis for compiling the budget are new, revised or previously approved and are now remaining unchanged.

Only new policies with recommended changes are produced in hard copy. Policies that remained unchanged will be made electronically available on request.

The following policies are contained on CD:

1. Tariffs policy in term of section 74 of the Municipal Systems Act
    a. Electricity
    b. Water and Wastewater
    c. Solid Waste
2. Property Rates Policy and By-law
    a. Rates policy in terms of section 3 of the Municipal Property Rates Act
    b. Rates by-law
3. Credit control and debt collection policy
    a. Credit control and debt collection policy in terms of section 96 of the MSA
    b. Credit control and debt collection
4. Banking and Investment policy published in terms of section 13 of the MSA
5. Financial and Administrative By-Law published in terms of section 13 of the MSA

7. SCM policy in terms of section 111 of the MFMA

8. Asset management and disposal of assets policy

9. Capitalisation Policy

9. Indigents policy ***(to be reviewed)***

10. Budget Policy and Procedures

11. Virement Policy

2. SERVICES TARIFFS 2011/12